

U.S. DEPARTMENT OF COMMERCE
Bureau of Economic Analysis

**BENCHMARK SURVEY OF FOREIGN DIRECT INVESTMENT
IN THE UNITED STATES — 1997**
**INSTRUCTION BOOKLET FOR FORMS BE-12(LF),
BE-12(SF), BE-12 Bank, and BE-12(X)**

INTRODUCTION

The Benchmark Survey of Foreign Direct Investment in the United States — 1997 is being conducted to collect data needed for compiling the nation's economic accounts and to provide a factual framework for addressing the concerns of policy makers and the general public about foreign direct investment in the United States. Reporting on the survey is mandatory under the International Investment and Trade in Services Survey Act (22 U.S.C. 3101 through 3108, as amended); **reports are due by May 31**. By law, the information reported may be used only for analytical and statistical purposes and, without your written permission, cannot be presented in a manner that allows it to be individually identified. A report must be filed by, or on behalf of, each U.S. business enterprise (including real estate held for other than personal use) in which a foreign person owned or controlled a direct or indirect interest of 10 percent or more at the end of the 1997 fiscal year.

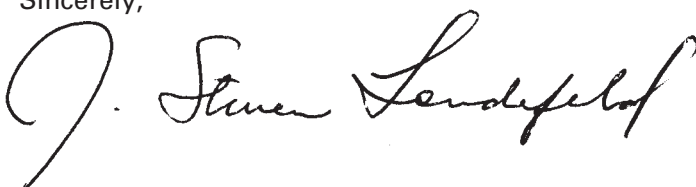
Before preparing your report, please review the information contained in this **Instruction Booklet**. If you filed a report for fiscal year 1996 on the Bureau's Annual Survey of Foreign Direct Investment in the United States (BE-15), also review any guidance we may have given for filing that report and apply it to your benchmark survey report as well. Please include a copy of your 1997 annual financial statements with your benchmark survey report, as it may help us resolve questions without the need for follow-up contact. If, after reviewing the instructions, you believe you are not required to report, you must nevertheless complete and return Form BE-12(X), "Claim for exemption from filing BE-12(LF), BE-12(SF), or BE-12 Bank," within 30 days of the receipt of this letter.

This survey introduces the new North American Industry Classification System (NAICS) as the basis for classifying enterprises reported in the Bureau's surveys of International investment and trade in services; in the past, classification was based on the U.S. Standard Industrial Classification system. Details of the NAICS-based system are provided in the accompanying booklet, **Guide to Industry and Foreign Trade Classifications for International Surveys**.

The benchmark survey will provide information on an important segment of the U.S. economy. In 1995, for example, foreign-owned firms accounted for 6 percent of U.S. gross product originating in private industries, 11 percent of all U.S. employment in manufacturing, and 23 percent and 34 percent, respectively, of total U.S. exports and imports of goods. The last such survey was conducted for 1992.

In designing the survey, the Bureau sought to keep reporting burden at the minimum consistent with meeting its obligations to collect data. Nonetheless, I recognize and appreciate your efforts to meet the reporting requirements. If you need assistance, please do not hesitate to contact my staff at (202) 606-5577. Thank you for your cooperation.

Sincerely,

A handwritten signature in black ink, reading "J. Steven Landefeld". The signature is fluid and cursive, with the first name "J." and last name "Landefeld" clearly legible.

J. Steven Landefeld
Director
Bureau of Economic Analysis

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I. REPORTING REQUIREMENTS

The publication in the **Federal Register** of the notice implementing this survey is considered legal notice to covered U.S. business enterprises of their obligation to report. Therefore, a response is required from persons subject to the reporting requirements of the BE-12 survey, whether or not they are contacted by BEA. Also, a person, or their agent, contacted by BEA concerning their being subject to reporting, either by sending them a report form or by written inquiry, must respond in writing pursuant to section 806.4 of 15 CFR, Chapter VIII. This may be accomplished by completing and returning Form BE-12(X) within 30 days of its receipt or by completing and returning Form BE-12(LF), BE-12(SF), or BE-12 Bank by May 31, 1998, whichever is applicable.

A. Who must report — A BE-12 report is required for each U.S. affiliate, i.e., for each U.S. business enterprise in which a foreign person owned or controlled, directly or indirectly, 10 percent or more of the voting securities if an incorporated U.S. business enterprise, or an equivalent interest if an unincorporated U.S. business enterprise, at the end of the business enterprise's 1997 fiscal year. Also, see I.A.4. below.

A report is required even though the foreign person's voting interest in the U.S. business enterprise may have been established or acquired during the reporting period.

Beneficial, not record, ownership is the basis of the reporting criteria.

Voting securities, voting stock, ownership interest, and voting interest all have the same general meaning and are used more or less interchangeably throughout the instructions and the report form, although one may be more appropriate than the others when referring to a specific business enterprise, or group of enterprises.

1. Form BE-12(LF) — Benchmark Survey of Foreign Direct Investment in the United States — 1997 (Long Form)

A Form BE-12(LF) must be completed and filed by May 31, 1998, by each U.S. business enterprise that was a U.S. affiliate of a foreign person at the end of its 1997 fiscal year, if:

- a. It is not a bank, and
- b. On a fully consolidated, or, in the case of real estate investments, an aggregated basis, one or more of the following three items for the U.S. affiliate (not the foreign parent's share) exceeded \$100 million (positive or negative) at the end of, or for, its 1997 fiscal year:
 - (1) Total assets (do not net out liabilities)
 - (2) Sales or gross operating revenues, excluding sales taxes, or
 - (3) Net income after provision for U.S. income taxes.

2. Form BE-12(SF) — Benchmark Survey of Foreign Direct Investment in the United States — 1997 (Short Form)

A Form BE-12(SF) must be completed and filed by May 31, 1998, by each U.S. business enterprise that was a U.S. affiliate of a foreign person at the end of its 1997 fiscal year, if:

- a. It is not a bank, and
- b. On a fully consolidated, or, in the case of real estate investments, an aggregated basis, one or more of the following three items for the U.S. affiliate (not the foreign parent's share) exceeded \$3 million (positive or negative), but no one item exceeded \$100 million (positive or negative) at the end of, or for, its 1997 fiscal year:
 - (1) Total assets (do not net out liabilities)
 - (2) Sales or gross operating revenues, excluding sales taxes, or
 - (3) Net income after provision for U.S. income taxes.

3. Form BE-12 Bank — Benchmark Survey of Foreign Direct Investment in the United States — 1997 (Bank Form)

A Form BE-12 Bank must be completed and filed by May 31, 1998, by each U.S. business enterprise that was a U.S. affiliate of a foreign person at the end of its 1997 fiscal year, if:

- a. It is a bank or bank holding company (see II.R. and IV.B., below) and,
- b. For all banking operations on a fully consolidated basis, one or more of the following three items for the U.S. affiliate (not the foreign parent's share) exceeded \$3 million (positive or negative) at the end of, or for, its 1997 fiscal year:
 - (1) Total assets (do not net out liabilities)
 - (2) Sales or gross operating revenues, excluding sales taxes, or
 - (3) Net income after provision for U.S. income taxes.

4. Form BE-12(X) — Benchmark Survey of Foreign Direct Investment in the United States — 1997, Claim for Exemption from Filing BE-12(LF), BE-12(SF), or BE-12 Bank

A Form BE-12(X) must be completed and filed within 30 days of the date it was received, or by May 31, 1998, whichever is sooner, by

- a. Each U.S. business enterprise that was a U.S. affiliate of a foreign person at the end of its 1997 fiscal year (whether or not the U.S. affiliate, or its agent, is contacted by BEA concerning its being subject to reporting in the 1997 benchmark survey), but is exempt from filing Form BE-12(LF), BE-12(SF), and BE-12 Bank (see I.B., below); and
- b. Each U.S. business enterprise, or its agent, that is contacted, in writing, by BEA concerning its being subject to reporting in the 1997 benchmark survey but that is not otherwise required to file the Form BE-12(LF), BE-12(SF), or BE-12 Bank.

- B. Exemption** — A U.S. affiliate as consolidated, or aggregated in the case of real estate investments (see I.C., below) is not required to file a Form BE-12(LF), Form BE-12(SF), or Form BE-12 Bank if each of the following three items for the U. S. affiliate (not the foreign parent's share) did not exceed \$3 million (positive or negative) at the end of, or for, its 1997 fiscal year:
- (1) Total assets (do not net out liabilities)
 - (2) Sales or gross operating revenues, excluding sales taxes, and
 - (3) Net income after provision for U.S. income taxes.

If a U.S. business enterprise is a U.S. affiliate but is not required to file a completed Form BE-12(LF), Form BE-12(SF), or Form BE-12 Bank because it falls below the exemption level, then it must complete and file a Form BE-12(X) with item 1 marked and the information requested in item 1 filled in.

- C. Aggregation of real estate investments** — All real estate investments of a foreign person must be aggregated for the purpose of applying the reporting criteria. A single report form must be filed to report the aggregate holdings, unless permission has been received from BEA to do otherwise. Those holdings not aggregated must be reported separately.

II. DEFINITIONS

- A. United States**, when used in a geographic sense, means the several States, the District of Columbia, the Commonwealth of Puerto Rico, and all territories and possessions of the United States.
- B. Foreign**, when used in a geographic sense, means that which is situated outside the United States or which belongs to or is characteristic of a country other than the United States.
- C. Person**, means any individual, branch, partnership, association, associated group, estate, trust, corporation, or other organization (whether or not organized under the laws of any State), and any government (including a foreign government, the U.S. Government, a State or local government, and any agency, corporation, financial institution, or other entity or instrumentality thereof, including a government sponsored agency).
- D. Associated group** means two or more persons who, by the appearance of their actions, by agreement, or by an understanding, exercise their voting privileges in a concerted manner to influence the management of a business enterprise. The following are deemed to be associated groups:
1. Members of the same family.
 2. A business enterprise and one or more of its officers or directors
 3. Members of a syndicate or joint venture.
 4. A corporation and its domestic subsidiaries.
- E. Foreign person** means any person resident outside the United States or subject to the jurisdiction of a country other than the United States.
- F. Direct investment** means the ownership or control, directly or indirectly, by one person of 10 per centum or more of the voting securities of an incorporated business enterprise or an equivalent interest in an unincorporated business enterprise.
- G. Foreign direct investment in the United States** means the ownership or control, directly or indirectly, by one foreign person of 10 per centum or more of the voting securities of an incorporated U.S. business enterprise or an equivalent interest in an unincorporated U.S. business enterprise, including a branch.
- H. Business enterprise** means any organization, association, branch, or venture which exists for profitmaking purposes or to otherwise secure economic advantage, and any ownership of any real estate.
- I. Branch** means the operations or activities conducted by a person in a different location in its own name rather than through an incorporated entity.
- J. Affiliate** means a business enterprise located in one country which is directly or indirectly owned or controlled by a person of another country to the extent of 10 per centum or more of its voting securities for an incorporated business enterprise or an equivalent interest for an unincorporated business enterprise, including a branch.
- K. U.S. affiliate** means an affiliate located in the United States in which a foreign person has a direct investment.
- L. Foreign parent** means the foreign person, or the first person outside the United States in a foreign chain of ownership, which has direct investment in a U.S. business enterprise, including a branch.
- M. Affiliated foreign group** means (i) the foreign parent, (ii) any foreign person, proceeding up the foreign parent's ownership chain, which owns more than 50 per centum of the person below it up to and including that person which is not owned more than 50 per centum by another foreign person, and (iii) any foreign person, proceeding down the ownership chain(s) of each of these members, which is owned more than 50 per centum by the person above it.

- N. Foreign affiliate of a foreign parent** means, with reference to a given U.S. affiliate, any member of the affiliated foreign group owning the U.S. affiliate that is not a foreign parent of the U.S. affiliate.
- O. U.S. corporation** means a business enterprise incorporated in the United States.
- P. Intermediary** means any agent, nominee, manager, custodian, trust, or any person acting in a similar capacity.
- Q. Ultimate beneficial owner (UBO)** is that person, proceeding up the ownership chain beginning with and including the foreign parent, that is not more than 50 percent owned or controlled by another person. (A person who creates a trust, proxy, power of attorney, arrangement, or device with the purpose or effect of divesting such owner of the ownership of an equity interest as part of a plan or scheme to avoid reporting information, is deemed to be the owner of the equity interest.) Note: Stockholders of a closely or privately held corporation are normally considered to be an associated group and may be a UBO.
- R. Banking** covers business enterprises engaged in deposit banking or closely related functions, including commercial banks, Edge Act corporations engaged in international or foreign banking, foreign branches and agencies of U.S. banks whether or not they accept deposits abroad, U.S. branches and agencies of foreign banks whether or not they accept domestic deposits, savings and loans, savings banks, and bank holding companies, i.e., holding companies for which over 50 percent of their total income is from banks which they hold.
- S. Lease** is an arrangement conveying the right to use property, plant, or equipment (i.e., land and/or depreciable assets), usually for a stated period of time.
1. **Capital lease** — A long-term lease under which a sale of the asset is recognized at the inception of the lease. These may be shown as lease contracts or accounts receivable on the lessor's books. The assets would not be considered as owned by the lessor.
 2. **Operating lease** — Generally, a lease with a term which is less than the useful life of the asset and a transfer of ownership is not contemplated.
- T. U.S. affiliate's 1997 fiscal year** is the affiliate's financial reporting year that has an ending date in calendar year 1997.

III. GENERAL INSTRUCTIONS

- A. Fiscal year reporting period** — The report covers the U.S. affiliate's 1997 fiscal year. The affiliate's 1997 fiscal year is defined to be the affiliate's financial reporting year that has an ending date in calendar year 1997. Those affiliates having a "52/53 week" fiscal year that ends within the first week of January 1998 are considered to have a 1997 fiscal year for filing the benchmark survey and should report December 31, 1997 as their 1997 fiscal year end. For a business enterprise that does not have a financial reporting year, such as would be the case for investments in unimproved real estate, or does not have a financial reporting year ending in calendar year 1997, its fiscal year is deemed to be the same as calendar year 1997. (U.S. affiliates that changed the ending date of their financial reporting year in 1997 should contact BEA to determine what reporting period should be used.)
- B. Calculation of indirect ownership interest** — All direct and indirect lines of ownership interest held by a foreign person in a given U.S. business enterprise must be summed to determine whether the enterprise is a U.S. affiliate of the foreign person for purposes of reporting.

III. GENERAL INSTRUCTIONS — Continued

A foreign parent's percentage of indirect ownership interest in a given U.S. business enterprise is the product of the direct ownership percentage of the foreign parent in the first U.S. business enterprise in the ownership chain times that first enterprise's direct ownership percentage in the second U.S. business enterprise times each succeeding direct ownership percentage of each other intervening U.S. business enterprise in the ownership chain between the foreign parent and the given U.S. business enterprise.

If there is more than one line of ownership from the foreign parent, or if other members of the affiliated foreign group hold direct or indirect lines of ownership in the U.S. business enterprise, then all ownership interest lines must be summed to determine if the U.S. business enterprise is a U.S. affiliate of a foreign person.

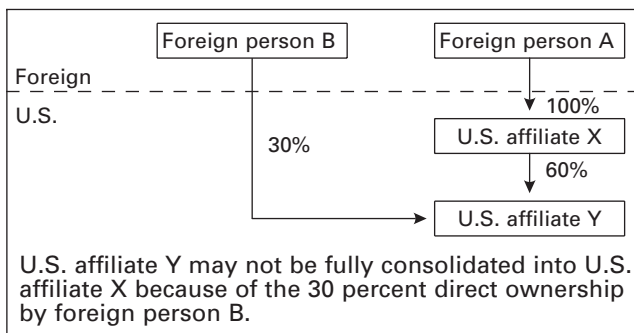
C. Accounting methods and records — Generally accepted U.S. accounting principles should be followed, unless otherwise specified. Corporations should generally use the same methods and records that are used to generate reports to stockholders except where the instructions indicate a variance.

Reports for unincorporated persons must be generated on an equivalent basis.

Reference to Financial Accounting Standards Board statements are referred to as "FASB" statements.

D. Consolidated reporting by U.S. affiliate — A U.S. affiliate must file on a fully consolidated domestic (U.S.) basis, including in the full consolidation all of its foreign parent's other U.S. affiliates in which it directly or indirectly owns more than 50 percent of the outstanding voting interest, except that:

1. A separate BE-12 report may be filed by a U.S. affiliate that is more than 50 percent owned by another U.S. affiliate if the first U.S. affiliate is not normally fully consolidated because control is temporary and provided that written permission has been requested from and granted by BEA. In accordance with FASB 94, consolidation of majority-owned subsidiaries is required even if their operations are not homogeneous with those of the U.S. affiliate that owns them.
2. A U.S. affiliate in which a direct ownership interest and an indirect ownership interest are held by different foreign persons should not be fully consolidated into another U.S. affiliate, but must complete and file its own Form BE-12(LF), BE-12(SF), or BE-12 Bank. (See diagram below.)



The indirect ownership interest, even if more than 50 percent, should be reflected on the balance sheet and income statement of the owning U.S. affiliate's Form BE-12(LF), BE-12(SF) or BE-12 Bank on an equity basis. (If both the direct and indirect lines of ownership are held by the same foreign person, the affiliate may be fully consolidated and the minority interest must be eliminated. Contact BEA for guidance on how the minority interest should be reported on Form BE-12(LF), BE-12(SF), or BE-12 Bank.)

3. Special instructions apply to consolidation of U.S. affiliates in banking. See IV.B., below.

4. Foreign subsidiaries, branches, or other foreign operations or equity investments of a U.S. affiliate are NOT to be included on a fully consolidated basis, but are to be included only as provided under III.E.

If a U.S. affiliate is not fully consolidated in its U.S. parent's BE-12 report, it must be listed on Supplement B of the U.S. parent's Form BE-12(LF) or BE-12(SF) and must file its own Form BE-12(LF), BE-12(SF), or BE-12 Bank. If you normally prepare your consolidated financial statements using the proportionate consolidation method, please contact this office before using that method in completing Form BE-12(LF), BE-12(SF), or BE-12 Bank.

Hereinafter, the fully consolidated entity is considered one U.S. affiliate.

E. Method of accounting for equity investments in business enterprises that are not fully consolidated — A U.S. affiliate's equity investment in all foreign business enterprises and in U.S. business enterprises that are not fully consolidated should be accounted for as detailed below. Foreign business enterprises must not be fully consolidated with the U.S. affiliate no matter what the percentage ownership. When equity investments are included under the equity basis, intercompany account items MUST NOT be eliminated.

1. Generally, investment in those business enterprises owned 20 percent or more (including those that are majority-owned) should be reported using the equity basis. However, immaterial investments may be reported using the cost basis provided this basis is consistent with normal reporting practice.
2. Investment in those business enterprises owned less than 20 percent normally should be reported using the cost basis.

F. Changes in the reporting entity — Changes in the consolidated reporting entity that occurred during FY 1997 must NOT result in restatement of close FY 1996 balances. The close FY 1996 balances for balance sheet or other items should represent the reporting entity as it existed at the close of FY 1996. This principle applies throughout the report form; for example, in Part III, close FY 1996 intercompany account balances should be those between the foreign parent and the U.S. affiliate as they actually existed at the close of FY 1996.

G. Reporting by unincorporated U.S. affiliate

DIRECTLY OWNED — A separate BE-12 report shall be filed by each unincorporated U.S. affiliate, including a branch, which is directly owned 10 percent or more by a foreign person; two or more such directly owned U.S. affiliates may not be combined on a single Form BE-12(LF) or Form BE-12(SF). The only exceptions are for U.S. affiliates that are banks or real estate investments (see Special Instructions IV.B. and IV.E., below).

INDIRECTLY OWNED — An indirectly owned unincorporated U.S. affiliate owned more than 50 percent by another U.S. affiliate must normally be fully consolidated on the report with the U.S. affiliate that holds the ownership interest in it.

Otherwise, a separate report is required for each indirectly owned unincorporated U.S. affiliate.

H. Industry and export and import trade classifications

A list and explanation of the industry classifications and export and import trade classifications used are given in the "Guide to Industry and Foreign Trade Classifications for International Surveys," BE-799, which is included as part of the BE-12 package.

III. GENERAL INSTRUCTIONS — Continued

I. Number of BE-12(LF), BE-12(SF), or BE-12 Bank Part IIIs, Investment and Transactions Between U.S. Affiliate and Foreign Parent, to be filed —

A separate Part III MUST be filed by the U.S. affiliate to report each direct and indirect voting interest held by a foreign parent, in the affiliate, at anytime during the affiliate's 1997 fiscal year. If a foreign parent holds **both** a direct and an indirect interest, in the affiliate, then a separate Part III MUST be filed to report each voting interest.

If the U.S. affiliate had more than one foreign parent at **anytime** during its 1997 fiscal year, the foreign parent with the largest direct voting interest **at year-end** should report using the Part III that is included in the BE-12 report itself.

Use photocopies of the Part III to report all additional direct or indirect voting interests, held by foreign parents, in the affiliate. At the top of each Part III, enter the name of the U.S. affiliate shown in item 1 and primary employer identification (EI) number shown in item 4, of the BE-12 report.

Do not duplicate positions in, or transactions with, the U.S. affiliate when more than one Part III is filed.

J. Bearer shares —

If the ownership in a U.S. affiliate by any owner in the ownership chain up to and including the ultimate beneficial owner (UBO) is represented by bearer shares, the requirement to disclose the information regarding the UBO remains with the reporting U.S. affiliate, except where a company in the ownership chain has publicly traded bearer shares. In that case, identification of the UBO may stop with the identification of a company whose capital stock is represented by the publicly traded bearer shares. For closely held companies with bearer shares that are not publicly traded, identifying the foreign parent or the UBO as "bearer shares" is not an acceptable response. The U.S. affiliate must pursue the identification of the UBO through managing directors, or any other official or intermediary.

K. Separate filing of information by foreign parent or ultimate beneficial owner —

Where information is requested concerning the foreign parent or ultimate beneficial owner (UBO), if the foreign parent or UBO does not wish to make the information available to the U.S. affiliate for inclusion in the report, it may furnish it separately to BEA. In doing so, it must completely identify the U.S. affiliate BE-12 report and the Part III to which it pertains, separately reference the items to which the information pertains, and give an address (and phone number if in the United States) where the foreign parent or UBO can be contacted.

L. Required information not available —

All reasonable efforts should be made to obtain the information required for reporting. Every question on each form should be answered, except where specifically exempt. When only partial information is available, an appropriate indication should be given.

M. Estimates —

If actual figures are not available, estimates should be supplied and labeled as such. When data items cannot be fully subdivided as required, totals and an estimated breakdown of the totals should be supplied.

Certain sections of the BE-12(LF) require data that may not normally be maintained in a company's customary accounting records. Provision of precise data in these sections may present the respondent with a substantial burden beyond what is intended by BEA. This may be especially true for:

- **Part I, Items 25 thru 35** — Number of employees in each industry of sales;
- **Part II, Section D** — Distribution of sales or gross operating revenues, by whether the sales were goods, investment income, or services, and the distribution of sales of services by transactor;
- **Part II, Section G, Items 88 thru 89, column (1)** — Number of acres of land;
- **Part II, Section J** — Exports and imports of U.S. affiliate on a shipped basis, by product and country; and
- **Part II, Section K** — Data disaggregated by State.

Data provided in these sections may be reasonable estimates based upon the informed judgement of persons in the responding organization, sampling techniques, prorations based on related data, etc. The procedures used should be consistently applied from one BEA survey to the next.

N. Specify —

When "specify" is included in certain data items, the type and dollar amount of the major items included must be given for at least the items mentioned in the line instruction.

O. Space on form insufficient —

When space on a form is insufficient to permit a full answer to any item, the required information should be submitted on supplementary sheets, appropriately labeled and referenced to the item number and the form.

IV. SPECIAL INSTRUCTIONS

A. Insurance companies —

When there is a difference, the financial and operating data in this report are to be prepared on the same basis as an annual report to stockholders, rather than on the basis of an annual statement to an insurance department. Valuation should be according to normal commercial accounting procedures, not at the rates promulgated by the National Association of Insurance Commissioners. Include assets not acceptable for inclusion in the annual statement to an insurance department.

Item on Form BE-12(LF):

- 41 CURRENT RECEIVABLES** — Include current items such as agents' balances, uncollected premiums, amounts recoverable from reinsurer, and other current notes and accounts receivable (net of allowances for doubtful items) arising from the ordinary course of business.
- 48 CURRENT LIABILITIES AND LONG-TERM DEBT** — Include current items such as loss liabilities, policy claims, commissions due, and other current liabilities arising from the ordinary course of business, and long-term debt. Policy reserves are to be included in "Other non-current liabilities," item 49, unless they are clearly current liabilities.
- 57 SALES OR GROSS OPERATING REVENUES, EXCLUDING SALES TAXES** — Include items such as earned premiums, annuity considerations, gross investment income, and items of a similar nature. Exclude income from unconsolidated affiliates that is to be reported in item 58 and certain gains or losses that are to be reported in item 59.
- 59 & 72 CERTAIN REALIZED AND UNREALIZED GAINS (LOSSES)** — Include, as appropriate, realized gains or losses due to profit or loss on the sale or maturity of investments, and unrealized gains or losses due to changes in the valuation of investments.
- 62 COST OF GOODS SOLD OR SERVICES RENDERED, AND SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (COSTS AND EXPENSES RELATING TO OPERATIONS)** — Include costs relating to sales or gross operating revenues, item 57, such as policy losses incurred, death benefits, matured endowments, other policy benefits, increases in liabilities for future policy benefits, other underwriting expenses, and investment expenses.
- 77 INVESTMENT INCOME** — Report that portion of sales or gross operating revenues, items 75 and 57, that is investment income (other than profit or loss on the sale or maturity of investments, which should be reported in item 59).
- 78 SALES OF SERVICES** — Include premium income and income from other services, if any.

IV. SPECIAL INSTRUCTIONS — Continued

B. Banks — U.S. bank affiliates are defined as U.S. affiliates classified in 1997 International Surveys Industry (ISI) codes 5221 and 5229.

A significant amount of information on the activities of foreign-owned U.S. banks is already being reported to other agencies of the Federal Government. Form BE-12 Bank is designed to yield only such additional information as is deemed necessary.

1. Consolidation — The consolidation rules stated in III.D. above apply, except that:

Banks and bank holding companies (BHC's) that directly or indirectly own more than a 50 percent interest in one or more U.S. affiliates in nonbanking industries are **not** permitted to file a single consolidated report on Form BE-12 Bank. Rather, all their U.S. affiliates in banking, including International Banking Facilities (IBF's), must be fully consolidated on Form BE-12 Bank, and all their U.S. affiliates in nonbanking industries must be consolidated on Form BE-12(LF) or BE-12(SF), whichever is applicable. (Note: A U.S. affiliate that provides support to a bank, such as a real estate subsidiary set up to hold the office buildings occupied by a U.S. bank affiliate, is considered to be in banking and should be consolidated on Form BE-12 Bank.)

If a directly-foreign-owned U.S. bank affiliate or BHC files separate reports for its banking and nonbanking activities, both reports should be classified as directly foreign owned. In the "name of U.S. affiliate," item 1 of each form, include "banking" on Form BE-12 Bank, and "nonbanking" on Form BE-12(LF) or BE-12(SF).

All U.S. branches and agencies (including IBF's) of a given foreign parent may be aggregated on a single Form BE-12 Bank. (Note, however, that subsequent filing of quarterly reports with BEA, if required, must be on the same, aggregated, basis.)

Operations of branches that are separately chartered offshore, in the Cayman Islands or the Bahamas for example, are not to be reported in the BE-12 survey, because they are considered to be foreign branches of the foreign parent.

For an incorporated U.S. bank affiliate, the number of its U.S. branches should **not** be reflected in item 12 of Form BE-12 Bank (the number of U.S. affiliates consolidated), and the U.S. branches should **not** be listed on Supplement A.

2. Special Instructions —

Part III, Sections B through E:

Direct investment in a U.S. bank affiliate

includes the foreign parent's equity investment and that portion of its debt investment in the U.S. affiliate that does not arise from the parent's or affiliate's normal banking business; similarly, the direct investment flows that enter the U.S. balance of payments accounts for these affiliates include only transactions related to such "permanent" investment. All other transactions and positions -- mainly claims and liabilities arising from the parent's and affiliate's normal banking business -- are excluded from direct investment because they are included, with other banking claims and liabilities, in the portfolio account data reported on the Treasury Department's International Capital (TIC) forms.

In order to avoid duplication in U.S. Government statistics, debt investment (item 62) and total owner's equity (items 66 and 69), and changes in these items, reported on Form BE-12 Bank, should not be reported on Treasury's TIC forms. Also, interest and fees related to items reportable on Treasury's TIC forms should not be reported in Section D of Form BE-12 Bank.

Debt transactions and positions of the U.S. bank affiliate with **foreign affiliates of the foreign parent** should be reported on Treasury's TIC forms, not on Form BE-12 Bank.

Item on Form BE-12 Bank:

62 FOREIGN PARENT'S DEBT INVESTMENT IN U.S. AFFILIATE — Report any loans from the foreign parent or home office that are nonbanking in nature including, for incorporated bank affiliates, that part of item 19 that is considered to be "permanent" debt investment by the foreign parent. Branches and agencies should include: deposits by the home office that may be required by regulatory agencies to offset portions of loan portfolios or maintain liquidity, such as special deposits, reserve deposits, or capital maintenance accounts; and non-interest-bearing loans from the home office, whether or not denominated in U.S. dollars (but converted to U.S. dollars for purposes of this report).

C. Airlines and ship operators — U.S. stations, ticket offices, and terminal and port facilities of foreign airlines and ship operators that provide services **ONLY** to the foreign airlines' and ship operators' own operation are not required to be reported. Reports are required when such enterprises produce significant revenues from services provided to unaffiliated persons.

D. Railroad transportation companies — Railroad transportation companies should include only the net annual balances for interline settlement items (car hire, car repair, freight revenues, switching revenues, and loss and damage settlements) in items 41, 46, 48, 238, and 239 of Form BE-12(LF) and items 37, 38, 66, and 67 of Form BE-12(SF). Receipts or payments of the same interline settlement items should be excluded from items 259 and 261 of Form BE-12(LF) and items 80 and 81 of Form BE-12(SF).

E. Real Estate — The ownership of real estate is defined to be a business enterprise, and if the real estate is foreign owned, it is a U.S. affiliate of a foreign person. A BE-12 report is required unless the enterprise is otherwise exempt.

Residential real estate held exclusively for personal use and not for profitmaking purposes is not subject to the reporting requirements. A residence which is an owner's primary residence that is then leased by the owner while outside the United States, but which the owner intends to reoccupy, is considered real estate held for personal use.

Ownership of U.S. residential real estate by a corporation whose sole purpose is to hold the real estate for the personal use of the owner(s) of the corporation is considered to be real estate held for personal use and therefore not subject to the reporting requirements.

A foreign person holding real estate investments that are reportable on the BE-12 must aggregate all such holdings for the purpose of applying the reporting criteria (see I.C above). If the aggregate of such holdings exceeds one or more of the exemption levels, then the holdings must be reported even if individually they would be exempt. A single Form BE-12(LF) or BE-12(SF) should be filed to report the aggregated holdings, unless permission has been received from BEA to do otherwise. In the latter case, those holdings not aggregated must be reported separately on Form BE-12(LF) or BE-12(SF); the reports must be filed as a group and notice given that they are all for one owner.

In Part I, Identification of U.S. Affiliate, for real estate investments being reported, BEA is not seeking a legal description of the property, nor necessarily the address of the property itself. Because there may be no operating

IV. SPECIAL INSTRUCTIONS — Continued

business enterprise as such for the investment, what is wanted is a consistently identifiable investment (i.e., U.S. affiliate) together with an address to which report forms can be mailed so that the investment (affiliate) can be reported on a consistent basis from survey to survey, or period to period.

Thus, in item 1 of the BE-12 survey forms the "name and address" of the U.S. affiliate might be:

XYZ Corp. N.V., Real Estate Investments
c/o B&K Inc., Accountants
120 Major Street
Miami, FL XXXXX

If the investment property has a name, such as Sunrise Apartments, Acme Building, etc., the name and address in item 1 of the BE-12 survey forms might be:

Sunrise Apartments
c/o ABC Real Estate
120 Major Street
Miami, FL XXXXX

There are questions throughout the report forms that may not be applicable to certain types of real estate investments, such as the employer identification number, or, for unimproved land held as an investment, number of employees, and exports and imports of U.S. affiliate. In such cases, the items should be marked "none."

If a foreign person has a direct or indirect voting ownership interest of 10 percent or more in a joint venture, partnership, etc., that is formed to own and hold, develop, or operate real estate, the joint venture, partnership, etc., in its entirety, not just the foreign person's share, is a U.S. affiliate and must be reported as set out below:

1. If the foreign interest in such a U.S. affiliate is directly held by the foreign person, then a Form BE-12(LF) or BE-12(SF) must be filed by the affiliate (subject to the exemption criteria and aggregation rules discussed above).
2. If such a U.S. affiliate is owned more than 50 percent by another U.S. affiliate, the owned affiliate must be fully consolidated in the Form BE-12(LF) or BE-12(SF) of the owning affiliate.
3. If such a U.S. affiliate is owned 50 percent or less by another U.S. affiliate, a separate Form BE-12(LF) or BE-12(SF) must be filed by the owned affiliate, and the BE-12 report form of the owning affiliate must show its equity investment in the owned affiliate.

For farms that are not operated by their foreign owners, the income statements and related items should be prepared based on the extent to which the income from the farm accrues to, and the expenses of the farms are borne by, the owner. Generally this means that income, expenses, and gain (loss) assignable to the owner should reflect the extent to which the risk of the operation falls on the owner. For example, even though the operator and other workers on the farm are hired by a management firm, if their wages and salaries are assigned to, and borne by, the farm operation being reported, then the operator and other workers should be reported as employees of that farm operation and the wages and salaries should be included as an expense in the income statement.

EXAMPLES:

1. If the farm is leased to an operator for a fixed fee, the owner should report the fixed fee in his "sales or gross operating revenue," and should report the non-operating expenses that he may be responsible for, such as real estate taxes, interest on loans, etc., as expenses in the income statement.
2. If the farm is operated by another person on a share arrangement whereby income and expenses are shared by the owner and operator in some ratio, only the owner's share of the income should be shown in "sales

or gross operating revenues," and only the owner's share of operating expenses and non-operating expenses should be shown elsewhere in the income statement, and in related items, as appropriate.

3. If the farm is operated by a management firm that oversees the operation of the farm and hires an operator, but the operating income and expenses are assigned to the owner, the income and expenses so assigned should be shown in the requested detail in the income statement, and related items, as appropriate. (The report should not show just one item, i.e., the net of income less the management fee, where the management fee includes all expenses.)

F. Partnerships — Limited partners do not have voting rights in a partnership and therefore cannot have direct investment in a partnership; their investment is considered to be portfolio investment. Determination of the existence of direct investment in a partnership is based on the country of residence of, and the percentage control exercised by, the general partner(s), although the latter may differ from the financial interest of the general partner(s).

G. Estates, trusts, and intermediaries

A FOREIGN ESTATE is a person and therefore may have direct investment, and the estate, not the beneficiary, is considered to be the owner.

A TRUST is a person, but is not a business enterprise. The trust is considered to be the same as an intermediary, and reporting should be as outlined below. For reporting purposes, the beneficiary(ies) of the trust, or the creator(s) of the trust in the situation detailed in the next sentence, or, if there is, or may be, a reversionary interest is (are) considered to be the owner(s) of the investments of the trust for determining the existence of direct investment. When a corporation or other organization creates a trust designating its shareholders or members as beneficiaries, the creating corporation or organization is deemed to be the owner of the investments of the trust, or succeeding trusts where the presently existing trust had evolved out of a prior trust, for the purposes of determining the existence and reporting of direct investment.

This procedure is adopted in order to fulfill the statistical purposes of this survey and does not imply that control over an enterprise owned or controlled by a trust is, or can be, exercised by the beneficiary(ies) or creator(s).

FOR AN INTERMEDIARY:

1. If a particular foreign direct investment in the United States is held, exercised, administered, or managed by a U.S. intermediary for the foreign beneficial owner, such intermediary is responsible for reporting the required information for, and in the name of, the U.S. affiliate, and will report on behalf of the U.S. affiliate or will instruct the U.S. affiliate to submit the required information. Upon so instructing the U.S. affiliate, the intermediary is released from further liability to report, provided it has informed BEA of the date such instructions were given and the name and address of the U.S. affiliate, and has supplied the U.S. affiliate with any information in the possession of, or which can be secured by, the intermediary that is necessary to permit the U.S. affiliate to complete the required reports. When acting in the capacity of an intermediary, the accounts or transactions of the U.S. intermediary with a foreign beneficial owner are considered as accounts or transactions of the U.S. affiliate with the foreign beneficial owner. To the extent such transactions or accounts are unavailable to the U.S. affiliate, they may be required to be reported by the intermediary.
2. If a foreign beneficial owner holds a U.S. affiliate through a foreign intermediary, the U.S. affiliate may report the intermediary as its foreign parent but, when requested, must also identify and furnish information concerning the foreign beneficial owner. Accounts or transactions of the U.S. affiliate with the foreign intermediary are considered as accounts or transactions of the U.S. affiliate with the foreign beneficial owner.

IV. SPECIAL INSTRUCTIONS — Continued

H. Determining place of residence and country of jurisdiction of individuals — An individual is considered a resident of, and subject to the jurisdiction of, the country in which physically located, subject to the following qualifications:

1. Individuals who reside, or expect to reside, outside their country of citizenship for less than one year are considered to be residents of their country of citizenship.
2. Individuals who reside, or expect to reside, outside their country of citizenship for one year or more are considered to be residents of the country in which they are residing, except as provided in paragraph IV.H.3.
3. Notwithstanding paragraph IV.H.2., if an owner or employee of a business enterprise resides outside the country of location of the enterprise for one year or more for the purpose of furthering the business of the enterprise, and the country of the business enterprise is the country of citizenship of the owner or employee, then such owner or employee nevertheless is considered a resident of the country of citizenship, provided there is the intent to return within a reasonable period of time.
4. Individuals and members of their immediate family who are residing outside their country of citizenship as a result of employment by the government of that country -- diplomats, consular officials, members of the armed forces, etc. -- are considered to be residents of their country of citizenship.

V. INSTRUCTIONS FOR SPECIFIC SECTIONS OF THE REPORT FORMS

A. Industry classification — Enter in items 25 through 34 of Form BE-12(LF) and items 14 and 15, or items 31 through 34 of Form BE-12(SF) and items 13 through 15 of Form BE-12 Bank the 4-digit 1997 ISI code and the sales associated with each code. For a full explanation of each code, see the "Guide to Industry and Foreign Trade Classifications for International Surveys." If fewer than ten codes are used on Form BE-12(LF) or fewer than four codes are used on Form BE-12(SF) or fewer than three codes are used on Form BE-12 Bank, total sales must be accounted for.

For an inactive affiliate, show the industry classification(s) pertinent to the last active period; for "start-ups" with no sales, show the intended activities).

Holding companies should show total income. Note, however, that industry classification of a U.S. affiliate that is a conglomerate is based on the activities of the fully consolidated U.S. business enterprise. The "holding company" classification (i.e., 1997 ISI code 5510), therefore, is often an invalid industry classification for a conglomerate. Call BEA for further assistance if this is the U.S. affiliate's apparent classification.

B. Certain realized and unrealized gains (losses) — Items 59 and 72 of Form BE-12(LF) and items 28 and 36 of Form BE-12 Bank--include:

1. Gains or losses from the sale, disposition, or revaluation of investment securities. (Dealers in securities, other finance companies, and insurance companies, see special instructions below.)
2. Gains or losses from the sale, disposition, or revaluation of land, other property, plant, and equipment, or other assets. (Real estate companies, see special instructions below.) However, gains or losses from the sale of inventory assets in the ordinary course of trade or business should not be included.

3. Gains or losses from remeasurement of the affiliate's foreign-currency-denominated assets and liabilities due to changes in foreign exchange rates during the reporting period and transaction gains (losses) taken to income in accordance with FASB 52.
4. Gains or losses due to extraordinary items (except those resulting from legal judgements and accidental damage to fixed assets).
5. Material gains or losses resulting from unusual or infrequently occurring items.

Gains or losses included in the income statement should be reported in item 59 of Form BE-12(LF) or item 28 of Form BE-12 Bank before income tax effect. Gains or losses taken directly to retained earnings, or to a surplus or other equity account, including translation adjustments per FASB 52 and valuation allowances for marketable debt and equity securities per FASB 115, should be reported in item 72 of Form BE-12(LF) or item 36 of Form BE-12 Bank **after** giving effect to income tax liability (benefit), if any, on the gains or losses.

Dealers in securities do **not** include realized gains or losses due to profit or loss on the sale or maturity of investments in either item 59 or 72, as appropriate, of Form BE-12(LF). However, unrealized gains or losses due to changes in the valuation of investments that are recognized during the period should be included in item 59 or 72, as appropriate, of Form BE-12(LF).

Finance companies (other than dealers in securities) and **insurance companies** should include in item 59 or 72, as appropriate, of Form BE-12(LF), realized gains or losses due to profit or loss on the sale or maturity of investments and unrealized gains or losses due to valuation allowances for marketable debt and equity securities, per FASB 115.

Real estate companies should **not** include in item 59 of Form BE-12(LF) gains or losses from the sale of real estate in the ordinary course of trade or business. However, a gain or loss that is recognized due to revaluation of assets without a sale should be shown in item 59 or 72, as appropriate, of Form BE-12(LF).

C. Allocated expenses and sales of services by type — Items 261a. through f. and 268 through 295, columns (8) through (10) of Form BE-12(LF) and items 81 and 82 of Form BE-12(SF).

1. Insurance services —To avoid duplication with other BEA surveys report **ONLY** the following:

On Form BE-12(LF) —

In item 261a., column 1, report payments by the U.S. affiliate of premiums for the purchase of primary insurance from the foreign parent

In item 261a., column 3, report losses paid by the foreign parent to the U.S. affiliate on such insurance

In items 268 through 281, column 8, report payments by the U.S. affiliate for the purchase of primary insurance from foreign affiliates of the foreign parent

In items 282 through 295, column 8, report losses paid by foreign affiliates of the foreign parent on such insurance

On Form BE-12(SF) —

In item 81, column 1, report payments by the U.S. affiliate of premiums for the purchase of primary insurance from the foreign parent and foreign affiliates of the foreign parent

In item 81, column 2, report losses paid by the foreign parent and foreign affiliates of the foreign parent to the U.S. affiliate on such insurance

V. INSTRUCTIONS FOR SPECIFIC SECTIONS OF THE REPORT FORMS — Continued

2. **Financial services** Report payments and receipts for the following types of financial services:

- Brokerage — including foreign exchange brokerage,
- Private placement of securities,
- Underwriting of securities,
- Financial management,
- Credit-related services — excluding credit card services,
- Financial advisory and custody services,
- Securities lending,
- All other financial services — including
 - asset pricing,
 - security exchange listing fees,
 - demand deposit fees,
 - securities rating services,
 - electronic funds transfer (include payments to SWIFT),
 - check processing fees,
 - mutual fund exit fees, load charges, and 12b-1 service fees,
 - securities redemption or transfer,
 - ATM network services,
 - securities or futures clearing and settling services.

Do not report as financial services

- Fees for commodity or merchandise brokerage services,
- Earnings from buying and selling (i.e., trading) commercial paper or other securities for your own account,
- Gains or losses due to selling or revaluing securities,
- Funding for sales promotion and representative offices (report in item 261f. "other" services),
- Receipts or payments for credit card enhancements (e.g., travel insurance, extended warranties, and discounts on tour packages or other purchases),
- Interest under repurchase or reverse repurchase agreements,
- Earnings from dealer markups on buy and sell transactions (i.e., bid/ask price spreads),
- Real estate brokerage fees,
- Business brokerage fees,
- Stock quotation and financial information services (report in item 261f. "other" services),
- Annuity purchases and payments to annuitants,
- Pension fund contributions and benefits,
- Premiums and other proceeds from writing (selling) options, forwards, futures and swaps,
- Earnings of principals from buying and selling of financial instruments,
- Bid/ask price spreads and trading profits on foreign currency exchange transactions,
- Insurance premiums and losses, and commissions on insurance,
- Interest and dividend receipts and payments

3. Transportation — Report payments by the U.S. affiliate to the Affiliated Foreign Group for carrying merchandise from foreign destinations to the United States **and between foreign destinations**; report receipts by the U.S. affiliate from the Affiliated Foreign Group for carrying merchandise from the United States to foreign destinations and for carrying freight between foreign destinations.

4. Computer and information services — Report payments and receipts for: **1.** computer and data processing services, including data entry, processing, and tabulation; computer systems analysis, design, engineering, and custom programming; and other computer services, including timesharing, maintenance, and repair, and **2.** database and other information services, including business, financial, or technical databases; reservation systems; and credit reporting and authorization systems.

5. Communication services — Report payments by the U.S. affiliate to the Affiliated Foreign Group and receipts by the U.S. affiliate from the Affiliated Foreign Group for:

- Message telephone services and other jointly provided (basic) services — Report payments for transmitting messages originating in, or routed through, the United States to foreign destinations. Report receipts for the U.S. affiliate's share of revenues for transmitting messages (including voice, data, video, satellite, images, telex, telegram, cable, etc.) originating abroad to or through U.S. destinations, or between foreign destinations. (For example, for messages originating in a Caribbean country routed through the United States to Western Europe, report separately the receipts from the Caribbean country in which the messages originated and the payments to the country of destination.)
- Private leased channel services — Report payments for leased channels and circuits terminating in foreign countries. Report receipts for channels and circuits terminating in the United States and for channels and circuits between foreign points.
- Value-added telecommunications services — Electronic mail, voice mail, and code and protocol processing; Facsimile services and videoconferencing; Internet connections (including Internet backbone and router services); and other value-added services.
- Support services related to the maintenance and repair of telecommunications equipment, ground station services, capacity leasing for transiting and launching of communications satellites.

6. Other services — Report payments and receipts for other services that are separately billed and that would normally be **included** in sales or gross operating revenues of the seller of the service (item 57 on this form for the U.S. affiliate) and allocated expenses or reimbursements for management, professional, technical, or other services that normally would be **included** in "other income" in the income statement of the provider of the service (item 60 on this form for the U.S. affiliate)

V. INSTRUCTIONS FOR SPECIFIC SECTIONS OF THE REPORT FORMS — Continued

D. Employment and employee compensation — Items 38, column (3), 83 and 84 of Form BE-12(LF); items 17a. and 17b. or items 41 and 54, column 3, of Form BE-12(SF); and, items 30 and 50, column 3, of Form BE-12 (BANK) — Employment and employee compensation data must be based on payroll records and relate to activities during the reporting period. The employment and employee compensation data must cover only activities that were charged as an expense on the income statement, charged to inventories, or capitalized during the reporting period. Do not include data related to activities of prior periods, such as those capitalized or charged to inventories in prior years.

1. Employment is the number of full-time and part-time employees on the payroll at the end of FY 1997, excluding home workers and independent sales personnel who are not employees. A count taken during, rather than at the end of, FY 1997 may be used provided it is a reasonable proxy for the end of FY 1997 number. If employment at the end of FY 1997, or the count taken at some other time during FY 1997, was unusually high or low because of temporary factors (e.g., a strike), the number of employees that reflects normal operations should be given. If the business enterprise's activity involves large seasonal variations, the average number of employees for FY 1997 should be given. If given, the average should be the average for FY 1997 of the number of persons on the payroll at the end of each payroll period, month, or quarter. If precise figures are not available, give your best estimate of the number of employees for FY 1997.

2. Collective bargaining agreements — Item 39 of Form BE-12(LF) — Employees are covered by collective bargaining agreements if:

- They are represented by a labor organization which is recognized as their bargaining agent,
- Their wages are determined by collective bargaining, and
- Settlements are embodied in signed, mutually binding collective bargaining agreements.

Thus, in item 39 of Form BE-12(LF), employees covered by national unions, plant unions, or any other organization meeting these criteria should be included. A reasonable estimate of the number of these employees is acceptable. If necessary, to facilitate estimation, you may consider all employees of a given establishment, plant, location, unit, etc., to be covered by collective bargaining agreements if a majority of those employees meet the three criteria above.

3. Employees of administrative offices and auxiliary units — Item 35, column 3, of Form BE-12(LF) and item 54a. of Form BE-12(SF) — Auxiliary units and administrative offices are primarily engaged in performing management and support services for the fully consolidated U.S. affiliate, such as accounting, data processing, legal services, research and development and testing, and warehousing. Administrative offices and auxiliary units are typically located separately from the operating units of the company. However, employees performing administrative or auxiliary activities that are located at an operating unit should be included if those employees also serve other operating units of the company and information on the number of these employees is available from the company's records.

4. Employee compensation consists of wages and salaries of employees and employer expenditures for all employee benefit plans.

a. Wages and salaries are the gross earnings of all employees before deduction of employees' payroll withholding taxes, social insurance contributions, group insurance premiums, union dues, etc. Include time and piece rate payments, cost of living adjustments, overtime pay and shift differentials, bonuses, profitsharing amounts, and commissions. Exclude commissions paid to independent personnel who are not employees.

Wages and salaries include direct payments by employers for vacations, sick leave, severance (redundancy) pay, etc. Exclude payments made by, or on behalf of, benefit funds rather than by the employer. (Employer contributions to benefit funds are "included in employee benefit plans.")

Wages and salaries include in-kind payments, valued at their cost, that are **clearly and primarily of benefit to the employees as consumers**. Do not include expenditures that benefit employers as well as employees, such as for plant facilities, employee training programs, and reimbursement for business expenses.

b. Employee benefit plans — Employer expenditures for all employee benefit plans, including those required by government statute, those resulting from a collective-bargaining contract, or those that are voluntary. Employee benefit plans include Social Security and other retirement plans, life and disability insurance, guaranteed sick pay programs, workers' compensation insurance, medical insurance, family allowances, unemployment insurance, severance pay funds, etc. If plans are financed jointly by the employer and the employee, only the contributions of the employer should be included.

E. Research and development — Items 109 through 114 of Form BE-12(LF) and item 20 or item 43 of Form BE-12(SF) — Research and development (R&D) includes basic and applied research in science and engineering, as well as design and development of prototypes and processes, if the purpose of such activity is to:

- Pursue a planned search for new knowledge whether or not the search has reference to a specific commercial application;
- Apply existing knowledge to the creation of a new product or process, including evaluation of use; or
- Apply existing knowledge to the employment of a present product or process.

R&D includes the activities described above whether assigned to separate R&D organizational units of the company or carried on by company laboratories and technical groups that are not a part of a separate R&D organization.

Research and development employees are scientists, engineers, and other professional and technical employees, including managers, who spend all or a majority of their time engaged in scientific or engineering R&D work, at a level that requires knowledge of physical or life sciences, engineering, or mathematics at least equivalent to that acquired through completion of a four-year college course with a major in one of these fields (i.e., training may be either formal or by experience).

V. INSTRUCTIONS FOR SPECIFIC SECTIONS OF THE REPORT FORMS — Continued

F. U.S. merchandise exports and imports — Items 115 through 168 of Form BE-12(LF) and items 44 and 45 of Form BE-15(SF) — The data on U.S. merchandise trade between U.S. affiliates and foreigners are to be reported on a "shipped" basis -- i.e., on the basis of when, where, and to (or by) whom the goods were shipped -- in order for them to be on the same basis as official U.S. trade statistics to which they will be compared. However, it is recognized that U.S. affiliates keep their accounting records on a "charged" basis, i.e., on the basis of when, where, and to (or by) whom the goods were billed or charged. Differences between the "charged" and "shipped" bases may be substantial. A major difference arises when a U.S. affiliate buys goods in country A and sells them in country B, but the goods are shipped directly from country A to country B. Because the goods did not physically enter or leave the United States, they are not U.S. trade. However, when the U.S. affiliate records the transactions on its books, it would show a purchase charged to it from country A and a sale charged by it to country B. If the U.S. affiliate's trade data in this survey were prepared on the "charged" basis, the purchase and sale would appear incorrectly as a U.S. import and U.S. export, respectively. Other differences arise when the U.S. affiliate charges the sale of its products to a foreign parent in one country, but ships the goods directly from the United States to an unaffiliated foreigner in another country. If the data are on the "shipped" basis, this should be a U.S. export to an unaffiliated foreigner, not to the foreign parent, and the destination should be the country of the unaffiliated foreigner, not that of the foreign parent.

For many U.S. affiliates, these and other differences between the "charged" and "shipped" bases may not arise. If there is no material difference between the two bases, the "charged" basis may be used. However, if a material difference does exist, then trade must be reported on the "shipped" basis. For this purpose, the U.S. affiliate may have to derive the data from export and import declarations filed with U.S. Customs or from shipping and receiving documents, rather than from accounting records, or may have to otherwise adjust its data from a "charged" to a "shipped" basis. In item 115 of Form BE-12(LF), the U.S. affiliate must indicate whether there is a material difference between the two bases in determining what is considered U.S. trade, whose trade it is, and the timing and ultimate destination or origin of the trade. In item 116 of Form BE-12(LF), the U.S. affiliate must indicate that the data are in fact being reported essentially on the "shipped" basis. BEA will ask the U.S. affiliate to refile the data if it determines that there is a material difference between the "charged" and "shipped" bases, and that the data are not on, or adjusted to, the "shipped" basis.

1. Definition of U.S. merchandise trade — The phrases "U.S. merchandise trade," "U.S. merchandise exports," and "U.S. merchandise imports" refer to physical movements of goods between the customs area of the United States and the customs area of a foreign country. Consigned goods must be included in the trade figures when shipped or received, even though not normally recorded as sales or purchases, or entered into intercompany accounts when initially consigned. Exclude the value of ships, planes, railroad rolling stock, and trucks that were temporarily outside the United States transporting people or merchandise.

Exclude from exports and imports the value of any goods that are in-transit. In-transit goods are goods that are not processed or consumed by residents in the intermediate country(ies) through which they transit; they enter those countries only because those countries are along the shipping lines between the exporting and importing countries. In-transit imports are goods that are en route from one foreign country to another via the United States (such as from Canada to Mexico via the

United States), and in-transit exports are goods en route from one part of the United States to another part via a foreign country (such as from Alaska to Washington State via Canada).

- 2. Timing** — Only goods actually shipped between the United States and a foreign country during FY 1997 should be included, regardless of when the goods were charged or consigned. For example, goods shipped by the U.S. affiliate in FY 1997 that were charged or consigned in FY 1998, should be included, but goods shipped in FY 1996 that were charged or consigned in FY 1997 should be excluded.
- 3. Trade of the U.S. affiliate** — Goods shipped by, or to, the U.S. affiliate whether or not they were actually charged or consigned by, or to, the U.S. affiliate, are considered to be trade of the U.S. affiliate.
- 4. Country of ultimate destination or origin** — On Form BE-12(LF), items 144 through 168, the country of ultimate destination is the country where the goods are to be consumed, further processed, or manufactured, **as known to the shipper at the time of exportation. If the shipper does not know the country of ultimate destination, the shipment should be credited to the last country to which the shipper knows that the merchandise will be shipped in the same form as when exported.** The country of origin is the country where the goods were grown, mined, or manufactured. In instances where the country of origin cannot be determined, the transactions are credited to the country of shipment.
- 5. Trade by product** — In disaggregating U.S. merchandise exports and imports by product, see the **"Guide to Industry and Foreign Trade Classifications for International Surveys,"** Part II, for a detailed description of the product categories used.
- 6. By (or to) whom goods were shipped** — Shipment by, or to, an entity refers to the physical movement of merchandise to or from the U.S. customs area by, or to, that entity regardless of by, or to, whom the merchandise was charged or consigned. Thus, for example, if the U.S. affiliate charges goods to a foreign parent in France but ships the goods to an unaffiliated foreigner in Switzerland, the goods are considered U.S. merchandise exports by the U.S. affiliate to the unaffiliated foreigner in Switzerland and should be recorded as such on the U.S. affiliate's Form BE-12(LF) or BE-12(SF).

NOTE: Merchandise shipped by an independent carrier or a freight forwarder at the expense of an entity are shipments by the entity.

- 7. Valuation of exports** — U.S. merchandise exports should be valued f.a.s. (free alongside ship) at the U.S. port of exportation. This includes all costs incurred up to the point of loading the goods aboard the export carrier at the U.S. port of exportation, including the selling price at the interim point of shipment (or cost if not sold), packaging cost, and inland freight and insurance. It excludes all subsequent costs such as loading cost, foreign import duties, and freight and insurance from the U.S. port of exportation to the foreign port of entry.
- 8. Valuation of imports** — U.S. imports should be valued at the actual contract price agreed upon between buyer and seller, adjusted to an f.a.s. foreign port-of-exportation basis. This includes all costs incurred up to the point of loading the goods aboard the export carrier at the foreign port of exportation, including the selling price at the interior point of shipment (or cost if not sold), packaging costs, and inland freight and insurance. It excludes all subsequent costs, such as loading costs, U.S. import duties, and freight and insurance from the foreign port of exportation to the U.S. port of entry.

V. INSTRUCTIONS FOR SPECIFIC SECTIONS OF THE REPORT FORMS — Continued

G. Distribution of selected data by State — Items 169 through 226 of Form BE-12(LF), items 48 through 54 of Form BE-12(SF) and items 44 through 50 of form BE-12 Bank — The Schedule of Employment, Land and Other Property, Plant, and Equipment, by Location covers the 50 States, the District of Columbia, and all territories and possessions of the United States. Include in this schedule only data pertaining to those U.S. business enterprises that are fully consolidated into the reporting U.S. affiliate; foreign business enterprises or operations, whether incorporated or unincorporated, should not be consolidated with the reporting U.S. affiliate and no data for them should be included. Exclude data for employees permanently located outside the United States. The "foreign" category is primarily for use in reporting movable fixed assets temporarily outside the United States, or for reporting any foreign fixed assets carried directly on the U.S. affiliate's books.

1. Location of employees or of an asset is the U.S. State, territory, or possession in which the person is permanently employed, or in which the land or other property, plant, and equipment is physically located and to which property taxes, if any, on such assets are paid. Therefore, an employee permanently based and carried on the payroll of a company located in California, who is on a temporary duty assignment in Texas at the end of the reporting period, should be shown as located in California rather than Texas. Equipment that may reside in more than one location during the reporting period, such as transportation equipment, or equipment that is carried directly on the U.S. affiliate's books but is permanently located outside the United States, should be reported in "Other property, plant, and equipment." See item 226 of Form BE-12(LF).

2. Valuation of property, plant, and equipment — Land and other property, plant, and equipment are to be valued at historical cost before any allowances for depreciation or depletion.

VI. FILING THE BE-12

A. Due date — A fully completed and certified Form BE-12(LF), BE-12(SF), or BE-12 Bank, including all Part III's, is due to be filed with BEA not later than May 31, 1998. If the U.S. affiliate is exempt from filing Form BE-12(LF), BE-12(SF) and BE-12 Bank, based on the criteria in paragraph I.B. above, it must complete and file Form BE-12(X) within 30 days of its receipt, or by May 31, 1998, whichever is sooner.

B. Mailing report forms to a foreign address — BEA will accommodate foreign owners that wish to have report forms sent directly to them. However, owners should be aware that extra time consumed in mailing to and from a foreign place may make meeting filing deadlines difficult.

C. Extensions — Because of BEA's tight schedule for processing the benchmark survey, extensions of the filing date must be limited. Nevertheless, reasonable requests for extension of the filing deadline will normally be granted. Requests for extensions of more than 30 days MUST be in writing, should explain the hardship that is the basis for the request, and must be received by BEA at least 15 days before the due date of the report. You may telephone BEA directly with requests for extensions of 30 days or less. See VI.D., below.

D. Assistance — For assistance, telephone (202) 606-5577 between 8:30 a.m. and 4:30 p.m. eastern time.

E. Annual stockholders' report — Business enterprises issuing annual reports to stockholders are to furnish a copy of their FY 1997 annual report when filing the BE-12 report.

F. Number of copies — A single original copy of each form and supplement is to be filed with BEA. This should be the copy with the address label in Part 1, if such a labeled copy has been provided by BEA. (Make corrections to the address on the label, if necessary.) You must also retain a file copy of each report for five years to facilitate resolution of any questions that BEA may have concerning your report. (Both copies are protected by law; see the statement on confidentiality in paragraph VI.H., below, and on each form.)

G. Where to send the report — Reports filed by mail through the U.S. Postal Service should be sent to:

U.S. Department of Commerce
Bureau of Economic Analysis
BE-49(A)
Washington, DC 20230

Reports filed by direct private delivery should be directed to:

U.S. Department of Commerce
Bureau of Economic Analysis
BE-49(A)
Shipping and Receiving Section M100
1441 L Street, NW
Washington, DC 20005

H. Confidentiality — The information filed in this report may be used only for analytical and statistical purposes and access to the information shall be available only to officials and employees (including consultants and contractors and their employees) of agencies designated by the President to perform functions under the Act. The President may authorize the exchange of the information between agencies or officials designated to perform functions under the Act, but only for analytical and statistical purposes. No official or employee (including consultants and contractors and their employees) shall publish or make available any information collected under the Act in such a manner that the person to whom the information relates can be specifically identified. Reports and copies of reports prepared pursuant to the Act are confidential and their submission or disclosure shall not be compelled by any person without the prior written permission of the person filing the report and the customer of such person where the information supplied is identifiable as being derived from the records of such customer (22 U.S.C. 3104).

1997 BE-12 ORDER FORM

To obtain additional copies of BE-12 Forms and Instructions, complete this order form or telephone 202-606-5577 or FAX 202-606-5319.

Enter the quantity of each item you require:

Item	Quantity	Item	Quantity
Form BE-12 Long Form		Guide to Industry and Foreign Trade Classifications for International Surveys	
Form BE-12 Short Form			
Form BE-12 Bank Form			
Form BE-12(X) Claim for not filing			
Instruction Booklet			

PLEASE COMPLETE BELOW

Name of U.S. Reporter

Attention:

Street Address

City, State, ZIP Code

RETURN TO

U.S. Department of Commerce
Bureau of Economic Analysis, BE-49(A)
Washington, DC 20230

Cut along this line.